

Annual Report

FY



COMMISSIONER OF THE REVENUE

June 30, 2003



NORFOLK
Life Celebrated Daily



Commissioner of the Revenue Norfolk, Virginia



Sharon M. McDonald
Commissioner of the Revenue

December 2003

Dear Norfolk Citizen:

It is my pleasure to present to you the 2003 Annual Report for your Commissioner of the Revenue Office.

This report marks my sixth year in office serving the citizens and business community in Norfolk. Over the years we have focused on improving operational efficiency and enhancing customer satisfaction. We have done all of this while maintaining primary attention to the identification and generation of additional revenue for our city.

As with any successful organization, we are continuously seeking new solutions to the challenges that we face. I am proud to have my staff actively and enthusiastically participate in the city's training initiative the "7 Habits of Highly Effective People." As we continue to improve our own personal effectiveness, we can better serve our customers and the citizens of our city.

During the past twelve months, we identified and generated an additional \$3.6 million in excess revenue from taxpayers not paying their fair share of taxes. This brings the total additional revenue to over \$28 million during my six years in office as your Commissioner of the Revenue. PLEASE NOTE: These increases are NOT due to any increase in taxes; rather, they are the result of more efficient tax assessments, and more stringent follow up on delinquent taxpayers.

We continue to maintain our primary focus on customer service, and each of our service units is designed using the "team" concept. This Annual Report lists the Team Leader of each unit along with the responsibilities of that team. If, after reading this report, you have any questions about a specific team, feel free to contact that Team Leader by e-mail or telephone.

Personal Property

- Commercial boat revenue jumped significantly. Our discovery procedures revealed a significant number of commercial vessels that were not on the assessment rolls. This accounted for an increase in commercial boat revenue in excess of \$400,000.
- Due to the decision by the City of Virginia Beach to eliminate vehicle decals, we initiated a review of all persons who did not renew their decals during FY '03. This review generated nearly \$350,000 of additional tax billings.

Business Tax

- The City saw a net gain of 495 Business Licenses issued to new businesses. Total Business License tax revenues for FY '03 were in excess of \$18.8 million.
- Meal taxes continued to be an important revenue source for our city as Food and Beverage tax collection increased by 3% to \$19.3 million, surpassing Business License revenue. Lodging taxes and Admissions taxes also enjoyed healthy growth of 9% (\$4.8 million) and 5% (\$3.9 million), respectively. Increases in our fiduciary tax revenue reflect the continuing change of our city's economy with a greater emphasis toward the service and tourism industries.
- To assist businesses with the remittance of these fiduciary taxes, we issued tax payment coupon books for meals and lodging taxes. This enables businesses to report their taxes in a manner similar to monthly state tax filings.
- There was a 4% increase in Machinery and Tools tax revenue despite a decline in the number of manufacturing companies in the City. This was due in part to operational expansions of several Norfolk companies.
- Cigarette taxes and short-term rental taxes showed healthy increases (4% and 2%, respectively).

Special Taxes

- Utility Tax Revenues from the telecommunications industries continues to grow (67% increase in FY03).
- Deregulation took effect January 1, 2001 for the electric and natural gas utilities. This office had taken the lead role during the FY00 transition of the tax toward deregulation to ensure no loss of revenues for the City. This proved beneficial as we saw increases in revenues from both Virginia Power (12%) and Virginia Natural Gas (23%).

Audit

- Collected nearly \$750,000 of revenues due to in-depth assessments in three primary categories:
 - ✓ Bank Franchise Taxes
 - ✓ Wireless Telecommunications
 - ✓ Fiduciary Tax Reviews.

State Income Tax

- This team continues to exemplify our focus on customer satisfaction. We offered extended Saturday hours during tax season. In all, we assisted over 20,000 Norfolk residents in the preparation of their state income tax returns, many of which came to our aid when the General Assembly threatened to cut our funding for these services. Governor Mark Warner ultimately restored the funding cuts during the General Assembly Veto Session.
- The members of the Income Tax team provide assistance to the IRS Volunteer Income Tax Assistance (VITA) program by offering free training to volunteer preparers.
- The Income Tax team also provides training for local professional tax preparers concerning updates to changes in the Virginia Income Tax code.
- Last year we joined with the Department of Taxation and other localities to test an on-site I-File program. The program was successful and was instituted statewide this past season. Locally we

assisted 5,203 taxpayers with this new filing method. Among other benefits, I-Filing allows taxpayers to receive their refunds much more quickly.

- Of the returns filed directly with this office, we identified 254 taxpayers who did not take full advantage of their deductions. We assisted these taxpayers with filing an amended return resulting in an additional \$65,163 in refunds.

Investigations

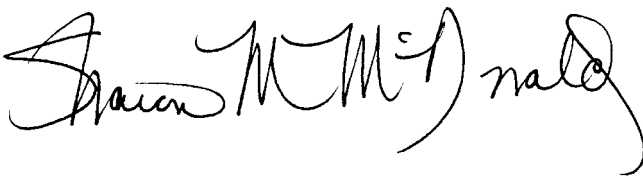
- This team initiated a mass mailing process, notifying businesses with delinquent business licenses. This resulted in a 13% decrease in the number of delinquent business license accounts.
- This team continues to work on Saturdays to ensure that we have an Investigator available on the weekends to monitor activities that might not normally be identified during the regular workweek.
- Revenue generated from Investigative activities was nearly \$2 million.
- During FY '03, we improved the technological capabilities of our Investigators so they have full access to the data files while they are in the field.

Real Estate Tax Relief for Senior and/or Disabled Citizens

- This program operates out of our satellite office in the Norfolk Skills Center on 21st Street in Ghent and served over 2,700 households last year.
- During the filing season for this program (February through June) we offered our services at five (5) satellite offices throughout the City. This helped ease the application process for many of Norfolk's senior and disabled citizens.

I am proud of our accomplishments during FY '03. Please know that the entire staff here in your Commissioner's office is dedicated to ensuring that we fulfill our responsibilities in a competent and professional manner. We also recognize that we are here to serve you and consider it our privilege to do so. I appreciate the feedback I continue to receive from our citizens and business community and am honored to serve as your Commissioner of the Revenue.

Very truly yours,

A handwritten signature in black ink, appearing to read "Sharon M. McDonald". The signature is fluid and cursive, with the last name "McDonald" written in a slightly larger, more prominent script.

Sharon M. McDonald
Norfolk Commissioner of the Revenue

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Commissioner of the Revenue

"Providing Superior Service and Quality to the Citizens of Norfolk"

Mission Statement

We are the chief tax assessor for the City of Norfolk.

We provide superior service and quality in the:

- ◆ Assessment of individual and business personal property;
- ◆ Issuance and renewal of business licenses;
- ◆ Administration of all fiduciary taxes;
- ◆ Evaluation of customer compliance
- ◆ Assistance and processing of Virginia State Income Taxes;
- ◆ Investigation of inquiries and delinquent accounts; and
- ◆ Assistance with Real Estate Tax Relief.

We provide these services for the Citizens of Norfolk and to aid in the continued growth of our community.

Commissioner of the Revenue

"Providing Superior Service and Quality to the Citizens of Norfolk"

History of the Office

The primary responsibility of this office is the assessment of City and State taxes. The Commissioner of the Revenue holds office as an agent for the state, as well as the local government, and is the assessing officer on the local level for those taxes as prescribed by State law and City Ordinance.

The office of the Commissioner of the Revenue was provided for in Virginia's Constitution in 1869. By 1906, the General Assembly had made it an appointive office, to be appointed by the local court. A Constitutional Amendment in 1910, changed the appointive method to elective for a four year term. In 1926, the General Assembly reduced the number of county Commissioners to one per county, conforming to the cities, making a total of one hundred and thirty four. In 1932, the General Assembly set up the basis of compensation for the Commissioners, with both the State and City participating.

Your Commissioner of the Revenue Office provides service and assistance to the citizens on tax-related issues. Norfolk citizens use this office and depend on it to assist them with both State and City tax-related concerns. As a bridge between our City Council members and our State Legislators, this office serves to protect the City and the taxpayers. A key responsibility of your Commissioner of the Revenue is to keep abreast of, and to lobby for, or against, legislative issues as they impact our city's revenues.

Duties of the Office

The Commissioner of the Revenue is the Assessor of all City taxes, except Real Estate, and of certain State Taxes as outlined in Section 58.1-3100 through 58.1-3122 of the Virginia State Code.

Commissioner's duties as specified by Virginia State and Norfolk City Code:

- ASSESS ALL BUSINESS AND PERSONAL PROPERTY
- CLASSIFY AND ISSUE BUSINESS LICENSES
- PROCESS STATE INCOME TAX RETURNS
- ASSESS ALL LOCAL FIDUCIARY TAXES

Commissioner's additional duties:

- 1) Administrator of Food and Beverage, Lodging, and Admission taxes
- 2) Administrator of Personal Property Tax Relief Compliance Program
- 3) Administrator of Senior Citizens Real Estate Tax Relief Program
- 4) Administrator of Residential Parking and Yard Sale Permits
- 5) Administrator of an audit program which, on a regular basis, evaluates, appraises, and compares all Business Licenses and their level of compliance
- 6) Administrator of Utility, Franchise (Bank, Telephone and Cable) and Public Service Corporation taxes
- 7) Administrator of Contractor's Workers Compensation certification
- 8) Provider of tax-related statistical data to City Council, City Manager, and other City Offices and Departments
- 9) Watchdog of all tax-related legislation introduced into the General Assembly in order to ascertain potential impact on local tax revenues
- 10) Advisor to Norfolk legislators to the General Assembly and Norfolk City Council concerning revenue issues
- 11) Administrator of a program to conduct Manufacturer determination visits

Tangible Personal Property Team

Rick M. Wilkins, Team Leader

Phone: 441-2861 email: rick.wilkins@norfolk.gov

Tangible Personal Property Team Duties

- ◆ **Individual/Business Vehicles Personal Property** - Autos, trucks, motorcycles and utility trailers are assessed on a prorated basis. Proration is calculated on the actual number of months the vehicle is present in the City of Norfolk. Assessment is calculated using the National Automobile Dealers Association (NADA) "Loan" Value and taxed at the rate of \$4.00 per hundred. Personal Property Tax is payable annually on, or before, June 5th.
- ◆ **Recreational Vehicles** - Recreational Vehicles are assessed on a prorated basis using the NADA Recreational Vehicle Guide "Used" Value and taxed at the rate of \$1.50 per hundred.
- ◆ **Boats*** - Pleasure boats are assessed annually using the Anderson and Bugg Outboard Service (ABOS) Marine Blue Book "Low Estimated Trade-In" Value and taxed at the rate of \$.01 per hundred. Commercial boats weighing less than 5 tons are assessed using the ABOS Marine Blue Book "Low Estimated Trade-In" Value and taxed at the rate of \$1.50 per hundred. Commercial boats weighing 5 tons or more are assessed at 60% of original cost, with a depreciation of 5% each year until reaching a minimum depreciated value of 20% of original cost. They are taxed at the rate of \$1.50 per \$100. All boat property tax is due on, or before, June 5th.
- ◆ **Boat Decals** - Boat decals are required for all pleasure boats that operate, dock, or are stored within the City of Norfolk, or on city waters. The decal cost is based on the length of the boat as follows: boats under 16' are \$10, boats 16' and over are \$25. The decals go on sale March 1st and must be displayed by May 15th of each year.
- ◆ **Mobile Homes*** - Mobile Homes are assessed using the Virginia Mobile Home Appraisal Guide and taxed at the rate of \$1.40 per \$100. All Mobile Home taxes are due on, or before, June 5th.
- ◆ **Aircraft*** - Aircraft are assessed at 20% of the Aircraft Blue Book "Equipped per Base Change/Inventory" Value and taxed at the rate of \$2.40 per \$100. Aircraft taxes are due on, or before, June 5th.

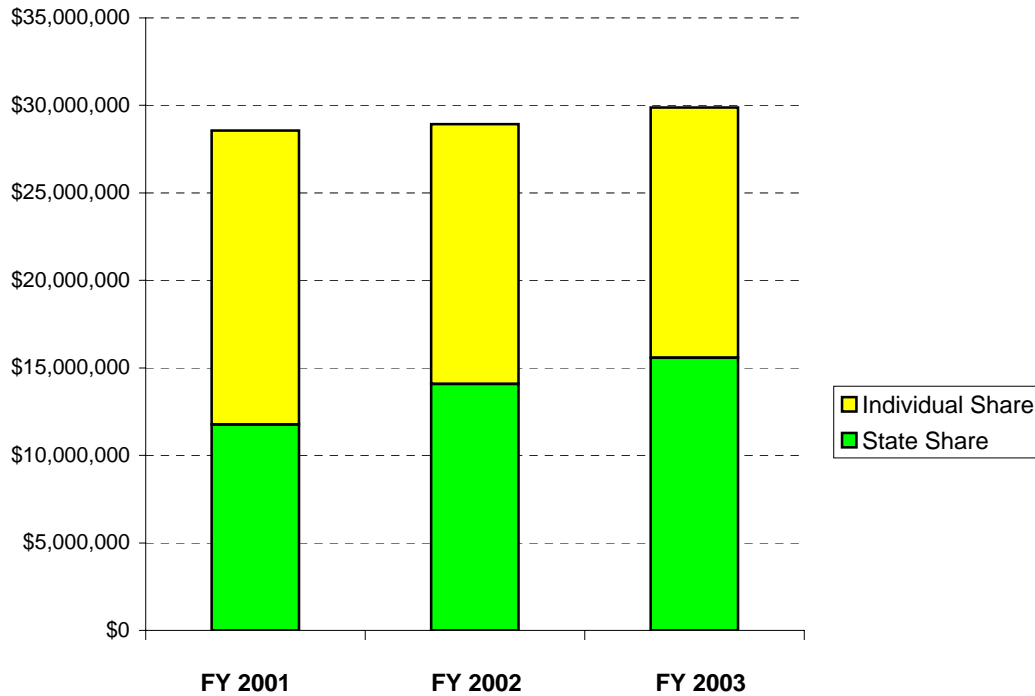
Tangible Personal Property Team Duties - Continued

- ◆ **Rental Tax on Daily Rental Passenger Cars** - Taxes are assessed at 8% of the Gross Rental Proceeds, for vehicles with a gross vehicle weight of 26,000 pounds or less. The DMV then forwards 4% of that amount to the City of Norfolk. Taxes are assessed at 4% of the Gross Rental Proceeds, for vehicles with a gross vehicle weight of 26,001 pounds or more, with the entire 4% forwarded to the City of Norfolk. These taxes are remitted to the Department of Motor Vehicles on a monthly basis.
- ◆ **Residential Parking Permits** - \$10.00 per vehicle, per year; for vehicles in certain areas of the city, prorated semi-annually. One free visitor pass per address is issued annually. In addition, 30-day visitor passes are available for \$2.00 with a maximum of 2 being issued simultaneously.
- ◆ **Yard/Garage Sale Permits** - \$5.00 Yard Sale permit fee and limited to two permits per calendar year.

*Personal Property Taxes in this classification are not prorated.

Tangible Personal Property - Vehicles

Chart 7 - Comparison - Tax Relief to Total Tax Due



Personal Property Tax Relief state share percentage set by Virginia Code:
 2001 - 70% Tax Relief
 2002 - 70% Tax Relief
 2003 - 70% Tax Relief

Table 7 - Summary of Tangible Personal Property Tax on vehicles

		Year			Inc/Dec	% Change
		FY 2001	FY 2002	FY 2003		
All Vehicles	Number Accts	150,445	155,929	154,356	-1,573	-1.01%
	Assessed	\$836,232,130	\$871,048,444	\$889,156,880	\$18,108,436	2.08%
	Tax Due*	\$28,568,184	\$28,921,505	\$29,887,610	\$966,105	3.34%
Vehicles qualifying for Tax Relief	Number Accts	104,382	118,926	123,578	4,652	3.91%
	Assessed	\$551,003,143	\$629,618,235	\$682,615,166	\$52,996,931	8.42%
	State Share	\$11,764,514	\$14,075,320	\$15,582,506	\$1,507,186	10.71%

* Annual Tax Due after proration

Boats - Personal & Commercial

Chart 8a - Annual Tax on Personal Boats

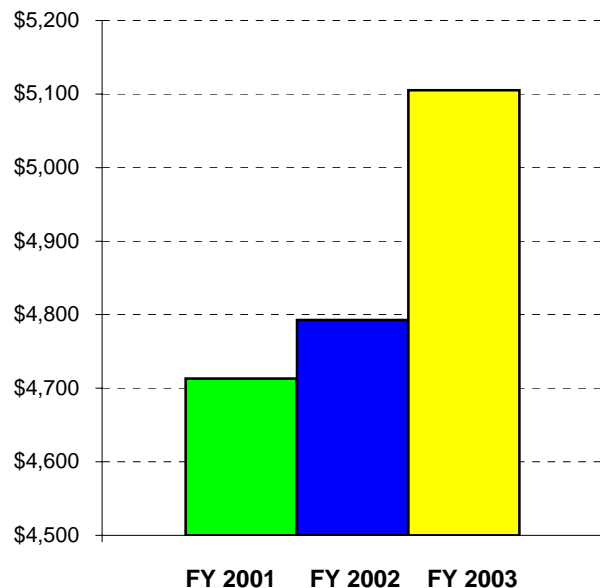


Chart 8b - Annual Tax on Commercial Boats

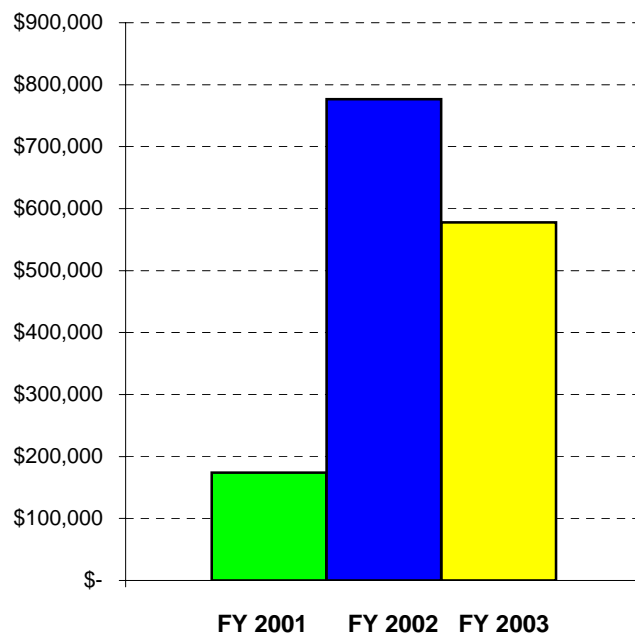


Table 8a - Annual Tax on Personal Boats

Personal Boats					
	FY 2001	FY 2002	FY 2003	Inc/ Dec	%Change
Units	5503	5488	5317	-171	-3%
Assessed Value	\$ 45,130,036	\$ 47,887,410	\$ 50,992,957	\$3,105,547	6%
Annual Tax	\$ 4,713	\$ 4,793	\$ 5,105	\$312	7%

Table 8b - Annual Tax on Commercial Boats

Commercial Boats					
	FY 2001	FY 2002*	FY 2003	Inc/ Dec	%Change
Units	255	326	363	37	11%
Assessed Value	\$ 11,690,441	\$ 51,748,899	\$ 39,898,258	-\$11,850,641	-23%
Annual Tax	\$ 174,007	\$ 776,339	\$ 579,783	-\$196,556	-25%

*The increase over 2001, is due to the addition of new vessels in this class of property for 2002, while the decrease in 2003 primarily reflects the 5% depreciation along with a decrease in the total number of vessels.

Mobile Homes & Aircraft

Chart 9a - Annual Tax on Mobile Homes

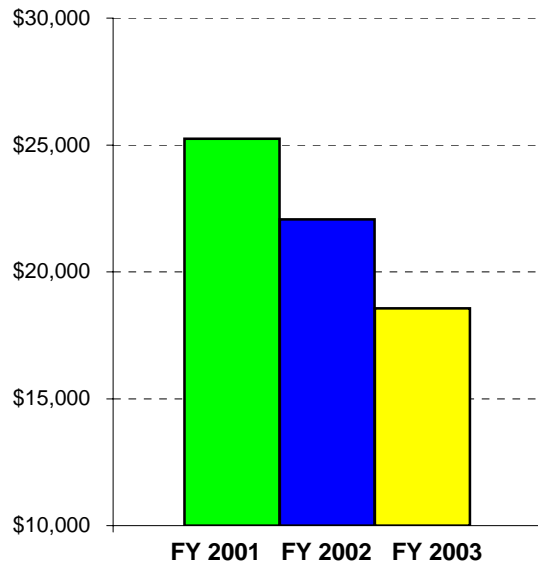


Chart 9b - Annual tax on Aircraft

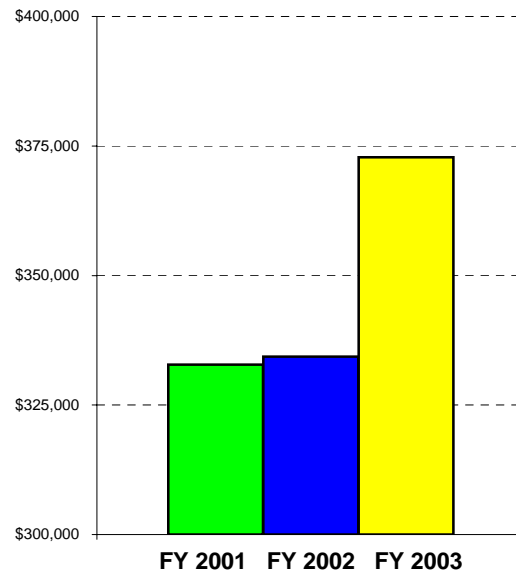


Table 9a - Annual Tax on Mobile Homes*

Mobile Homes					
	FY 2001	FY 2002	FY 2003	Inc/ Dec	%Change
Units	608	554	440	-114	-21%
Assessed Value	\$ 1,802,470	\$ 1,575,846	\$ 1,325,606	-\$250,240	-16%
Annual Tax	\$ 25,240	\$ 22,066	\$ 18,559	-\$3,507	-16%

*Revenue declined due to closing of several mobile home parks in the city.

Table 9b - Annual Tax on Aircraft

Aircraft					
	FY 2001	FY 2002	FY 2003	Inc/ Dec	%Change
Units	99	73	79	6	8%
Assessed Value	\$ 14,062,169	\$ 13,931,713	\$ 15,533,976	\$1,602,263	12%
Annual Tax	\$ 332,782	\$ 334,362	\$ 372,815	\$38,453	11.5%

Tax on Daily Rental Passenger Cars

Chart 10 - Rental Tax on daily rental passenger cars

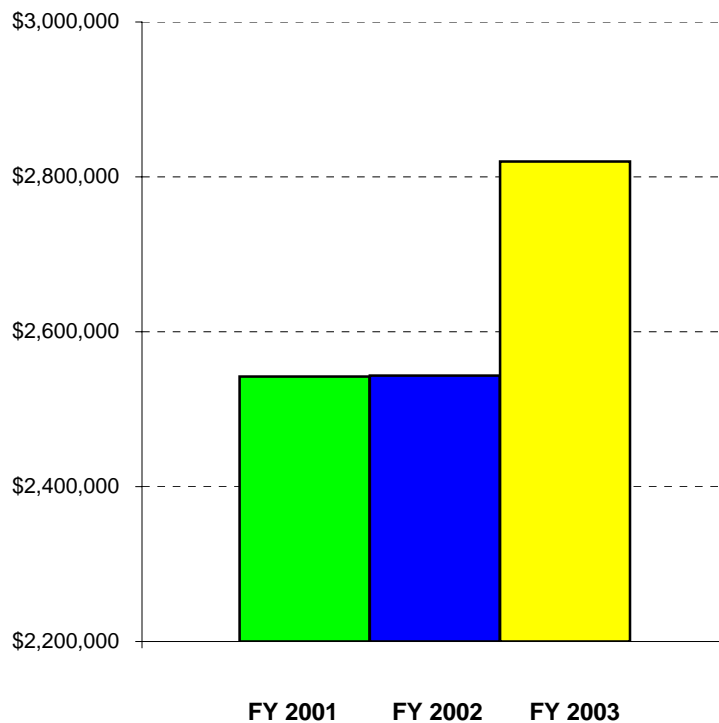


Table 10 - Revenue from 2 1/2% rental tax on daily rental of passenger cars

Period	FY 2001	FY 2002	FY 2003	Inc/ Dec	%Change
Jul - Sep	\$ 681,226	\$ 459,830	\$ 766,998	\$307,168	67%
Oct - Dec	769,459	977,601	845,808	(131,793)	-13%
Jan - Mar	594,985	552,320	632,926	80,606	15%
Apr - Jun	496,501	553,746	574,215	20,469	4%
Totals	\$ 2,542,171	\$ 2,543,497	\$ 2,819,947	\$ 276,450	10.9%

Residential Parking Permit Sales

Chart 11 - Percentage of Residential Parking Permit sales by zone

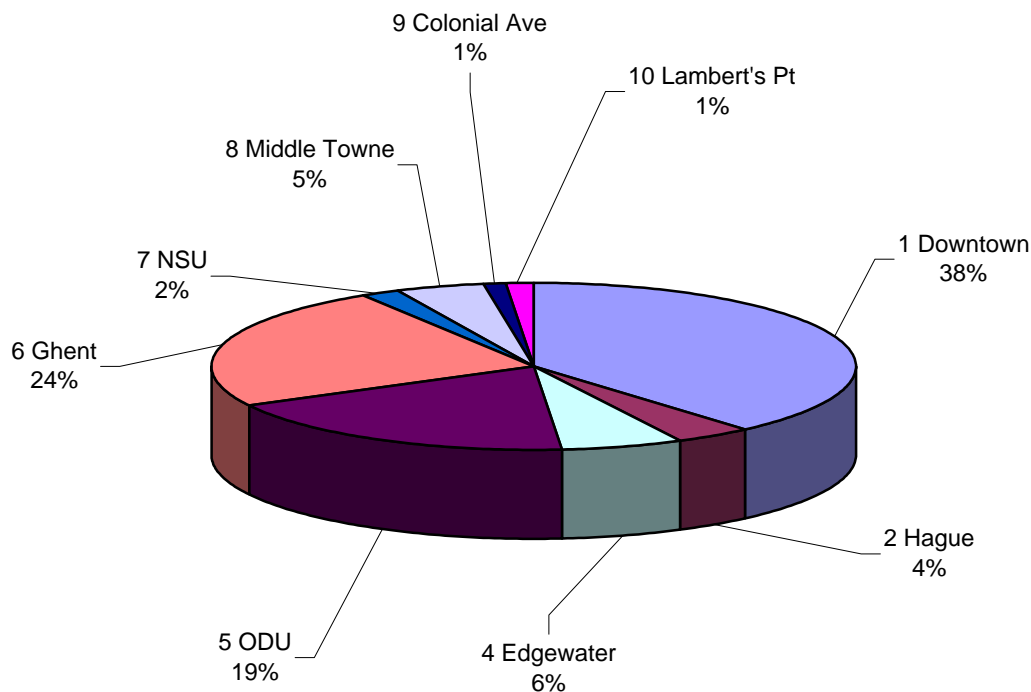


Table 11 - Residential Parking Permits Sold

Zone	FY 2001		FY 2002		FY 2003		Number Inc/Dec	\$ Amount Inc/Dec	\$ Amount %Change
	Number	Amount	Number	Amount	Number	Amount			
1 Downtown	730	\$ 6,740	961	\$ 8,378	1049	\$ 8,898	88	\$ 520	6%
2 Hague	83	726	76	681	117	952	41	271	40%
3 DePaul	2	5	1	10	0	0	(1)	(10)	-100%
4 Edgewater	100	931	104	948	158	1,387	54	439	46%
5 ODU	423	3,885	403	3,739	506	4,291	103	552	15%
6 Ghent	525	4,522	519	4,571	709	5,566	190	995	22%
7 NSU	30	232	43	364	53	414	10	50	14%
8 Middle Towne	41	401	118	976	129	1,046	11	70	7%
9 Colonial Ave	21	158	27	219	37	256	10	37	17%
10 Lambert's Pt	17	138	24	197	25	312	1	115	58%
Totals	1972	\$17,738	2276	\$20,083	2783	\$23,122	507	\$ 3,039	15%

Boat Decal Sales

Chart 12 - Boat Decal Sales

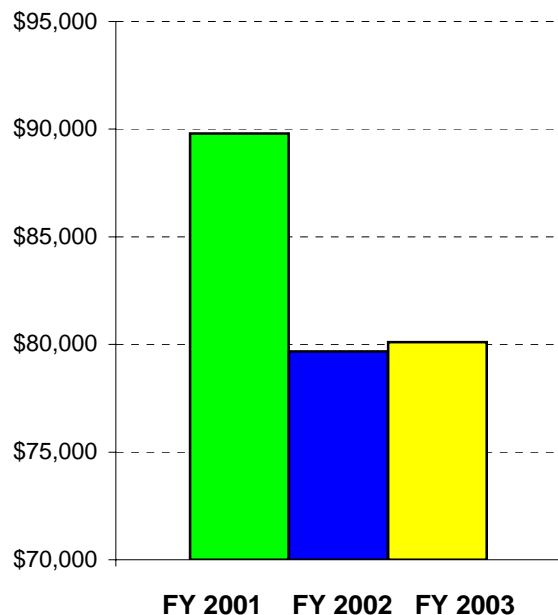


Table 12 - Boat Decal Sales

Category	FY 2001		FY 2002		FY 2003		Number Inc/Dec	Amount Inc/ Dec	Amount %Change
	# Sold	\$Amount	# Sold	\$Amount	# Sold	\$Amount			
Boats Under 16'	1224	\$ 12,240	1226	\$ 12,260	1230	\$ 12,300	4	\$ 40	0.3%
Boats 16' to Under 28'	2093	56,275	2084	52,100	2130	53,250	46	1,150	2%
Boats 28' to Under 40'	470	18,250	505	12,625	476	11,900	(29)	-725	-6%
Boats 40' and Over	83	2,975	107	2,675	106	2,650	(1)	-25	-1%
Military Decals	235	0	197	0	195	0	(2)	0	
Tax Exempt	4	0	4	0	13	0	9	0	
Decal Replacement	20	55	5	10	3	6	(2)	-49	-40%
Total	4129	\$89,795	4,128	\$ 79,670	4,153	\$ 80,106	25	\$ 436	1%

Yard/ Garage Sale Permits

Chart 13 - Yard/ Garage Sale Permits total revenue

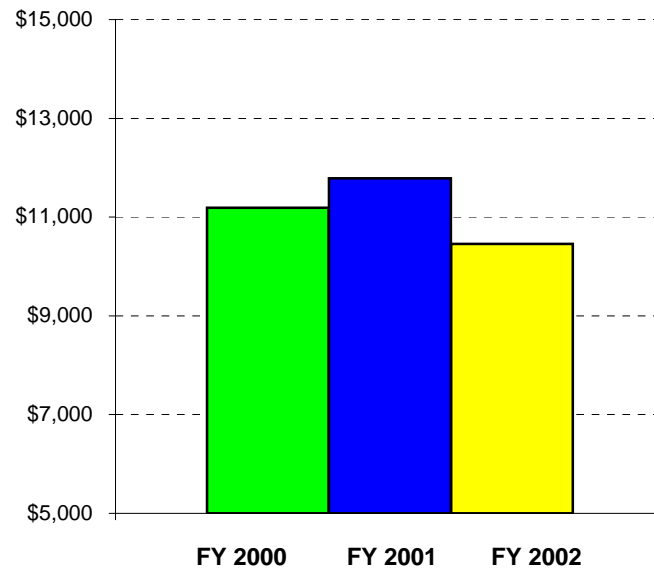


Table 13 - Yard/Garage Sale Permits issued and fees collected

	FY 2001	FY 2002	FY 2003	Inc/Dec	%Change
Permits Issued	2,238	2,357	2,088	(269)	-11%
Fees Collected	\$ 11,190	\$ 11,785	\$ 10,460	\$ (1,325)	-11%

Decrease Attributable to rainy weekends in April & May which is the prime Yard Sale season.

Omitted Assessments - Vehicles

Chart 14 - Omitted Assessments

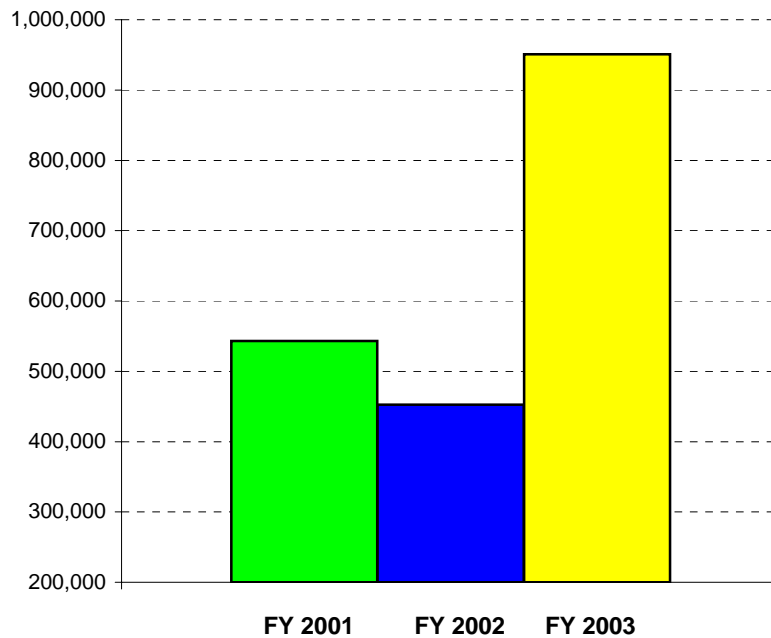


Table 14 - Tax due from Omitted Assessments*

	Year			Inc/Dec	% Change
	FY 2001	FY 2002	FY 2003		
Assessment	36,677,346	38,996,774	50,318,471	11,321,697	29%
Tax	543,017	452,631	951,030	498,399	110%

*Assessment for prior fiscal year

Business Tax

William E. Parker, Team Leader

Phone: 441-2270 email: bill.parker@norfolk.gov

Business Tax Team Duties

- ◆ **Business Personal Property** - Includes all business furniture, fixtures, equipment, machinery and tools located in the City of Norfolk on January 1st. This property is assessed at 40% of the original capitalized cost (new) and taxed at the rate of \$4.00 per hundred. Machinery and Tools for manufacturers are assessed at 40% of the original capitalized cost (new) and taxed at the rate of \$4.00 per hundred. Business Personal Property tax is payable annually on, or before, June 5th.
- ◆ **City Business License** - If annual gross receipts exceed \$100,000 then the following taxation rate schedule is used: Contactors \$0.16 per \$100; Retail and Restaurants \$0.20 per hundred; Service and Repair \$0.36 per hundred; Professional and Real Estate \$0.58 per hundred; Telecommunications \$0.50 per hundred and Wholesale \$0.15 per hundred plus \$50. If annual gross receipts are less than, or equal to, \$100,000 then a flat fee of \$50 is due. Business License taxes are due on, or before March 1st.
- ◆ **Food and Beverage Tax** - Food and Beverage taxes are 6 1/2% of the meal, including alcoholic beverages. This tax is remitted monthly by the 20th of each month.
- ◆ **Lodging Tax** - Lodging taxes are 8% of the hotel/motel bill and are remitted monthly by the 20th of each month.
- ◆ **Admissions Tax** - These taxes are 10% on all events held within the city that charge an admission. This tax is remitted monthly by the 20th of each month.
- ◆ **Cigarette Tax** - This tax is payable upon the purchase of cigarette stamps which are sold by the City Treasurer, these stamps must be affixed to each package. The taxation rates, effective July 1, 2003, are \$.55 on a package containing 20 cigarettes, and \$.6875 on a package containing 25 cigarettes.
- ◆ **Short Term Rental Tax Personal Property** - 1% levy on rental items that are "short term" in nature (92 days or less). These items include, but are not limited to, video tapes, tuxedos, and lawn equipment. The retailer remits this tax to the city on a quarterly basis, due on the 20th of the 2nd month following the quarter.

Business Personal Property

Chart 16a - Business Property - Furniture, Fixtures & Equipment

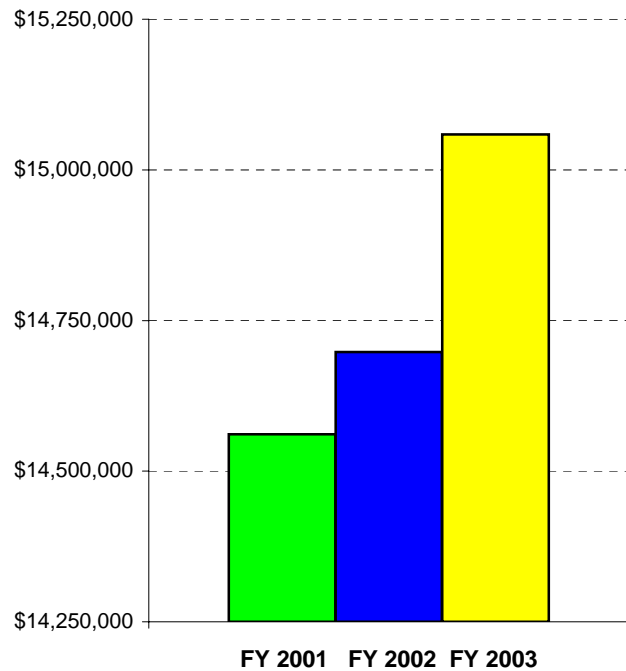


Chart 16b - Business Property - Machinery and Tools

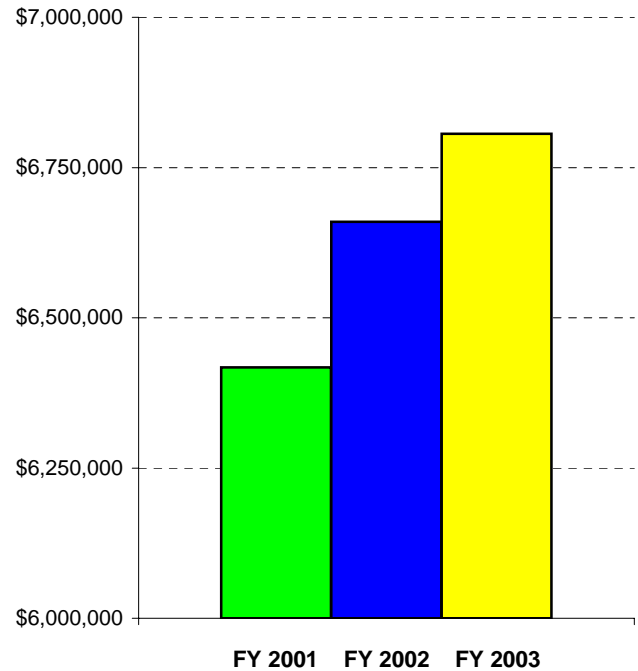


Table 16 - Annual Business Personal Property Tax

Classification	Fiscal Year	Year			Inc/ Dec	% Change
		FY 2001	FY 2002	FY 2003		
Furniture, Fixtures & Equipment	Accounts	8938	8989	9303	314	3%
	Assessments	\$357,687,865	\$361,324,839	\$370,028,552	\$8,703,713	2%
	Tax	\$14,561,361	\$14,697,866	\$15,058,959	\$361,093	2%
Machinery & Tools	Accounts	155	151	161	10	7%
	Assessments	\$159,693,126	\$166,041,173	\$168,936,474	\$2,895,301	2%
	Tax	\$6,417,569	\$6,659,816	\$6,806,088	\$146,272	2%
Combined Total	Accounts	9093	9140	9464	324	4%
	Assessments	\$517,380,991	\$527,366,012	\$538,965,026	\$11,599,014	2%
	Tax	\$20,978,930	\$21,357,682	\$21,865,047	\$507,365	2%

Business License - Activity by Classification

Table 17a - Business License Summary

Summary of Business License Development	FY 2001	FY 2002	FY 2003
New Businesses Opened	2454	2174	2191
Total Businesses Closed	1818	1679	1990
Net Increase/Decrease	636	495	201

Chart 17 - Business License Terminations

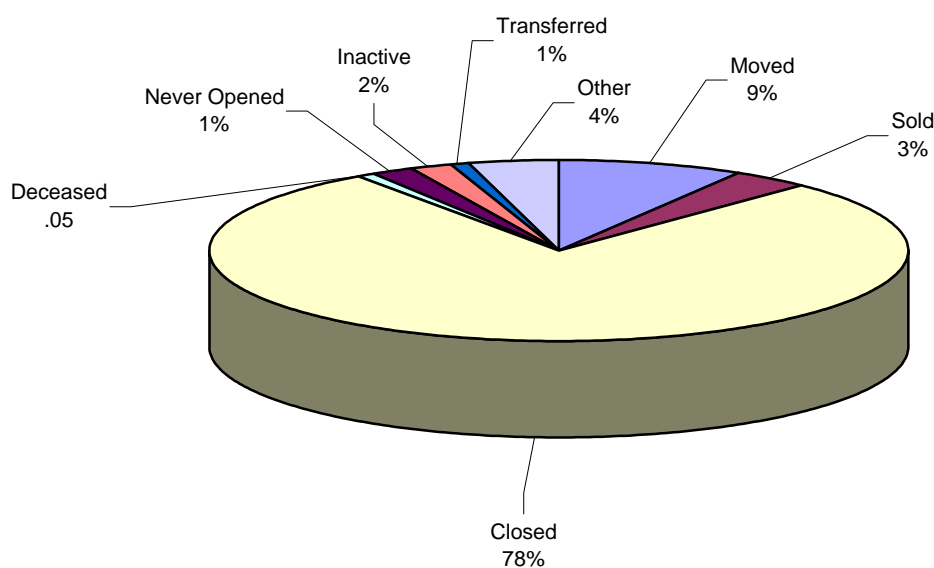


Table 17b - Business License Terminations

Business License Termination Criteria	FY 2001	FY 2002	FY 2003	Inc/Dec	% Change
Moved (businesses that have left the city)	135	163	173	10	6%
Sold (businesses that changed ownership monetarily)	45	50	68	18	36%
Closed (letter received from customer stating business closed)	1497	1253	1556	303	24%
Deceased (owner of business has died)	14	7	15	8	114%
Never Opened (license obtained, but business never started)	8	13	40	27	208%
Inactive (e.g. out-of-town contractors, special events vendors)	30	32	36	4	13%
Transferred (ownership changed within businesses)	47	37	17	(20)	-54%
Other	42	124	85	(39)	-31%
Total	1818	1679	1990	311	19%

Business License - Revenue

Chart 18 - Business License Revenue by classification

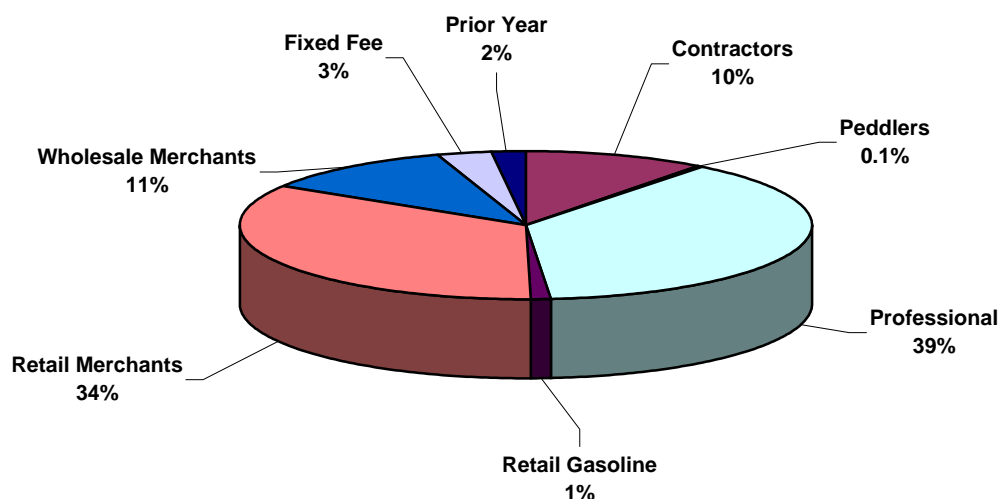


Table 18 - Business License by classification

Classification	FY 2001		FY 2002		FY 2003		Amount Inc/ Dec	Amount %Change
	Number	\$Amount	Number	\$Amount	Number	\$Amount		
Contractors	1,759	1,464,276	1,093	617,216	2,594	1,435,812	818,596	133%
Peddlers	81	7,504	211	10,339	88	6,646	(3,693)	-36%
Professional	1,398	4,610,878	1,328	4,912,840	1,490	5,272,049	359,209	7%
Retail Gasoline	113	196,778	100	179,278	104	158,039	(21,239)	-12%
Retail Merchants	3,648	4,309,141	3,515	4,527,713	4,017	4,683,617	155,904	3%
Wholesale Merchants	597	1,805,162	580	1,678,950	647	1,543,154	(135,796)	-8%
Fixed Fee	312	1,489,426	377	810,533	486	409,806	(400,727)	-49%
Prior Year	321	392,644	332	275,714	276	283,868	8,154	3%
All Others	5,076	4,595,171	5,662	5,984,077	4,848	5,441,563	(542,514)	-9%
Total Revenue	13,305	\$ 18,870,980	13,198	\$ 18,996,660	14,550	\$ 19,234,554	\$ 237,894	1%
Less Refunds	189	170,967	142	182,108	256	462,886	280,778	154%
Net Revenue	13,116	\$ 18,700,013	13,056	\$ 18,814,552	14,294	\$ 18,771,668	\$ (42,884)	-0.2%

Brief Description of Classifications

Annual Tax Rate

Contractors - Businesses who bid on jobs and perform work based on their bids (Building Trades)	\$.16 per 100
Peddlers - Merchants who travel from place to place with no specific location for offering their goods and services	\$500
Professionals - Licensed individuals (Attorneys, Physicians, CPA's, etc.)	\$.58 per 100
Retail Gasoline - Service Stations	\$.20 per 100
Retail Merchants - Those who sell goods to the public (retail stores & restaurants)	\$.20 per 100
Wholesale Merchants - Distributors who sell to retailers	\$.15 per 100 plus \$50
Fixed Fee - License Fee for a one time event such as, carnivals, circuses and festivals	Varies
Prior Year - Tax collected for previous license years	Varies
Refunds - Issued for businesses: moving from Norfolk, resulting from an audit, reconciliation of taxpayer and/or Commissioner of Revenue errors.	Varies
All Others - Business Services	Varies

Food and Beverage Tax & Lodging Tax

Chart 19a - Food and Beverage Tax

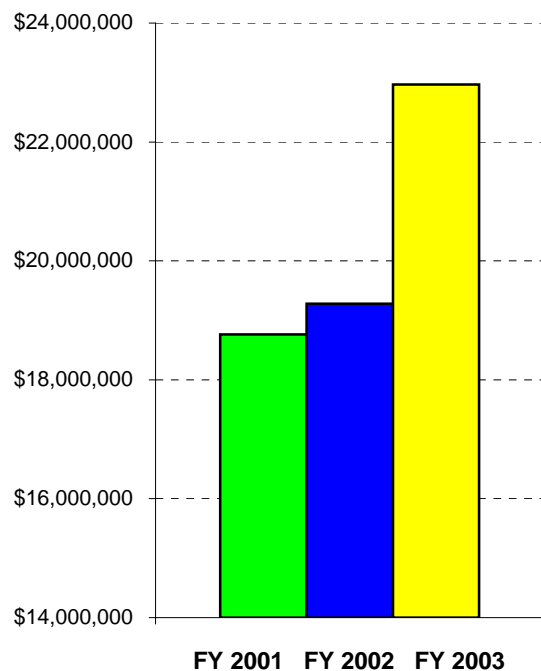


Chart 19b - Lodging Tax

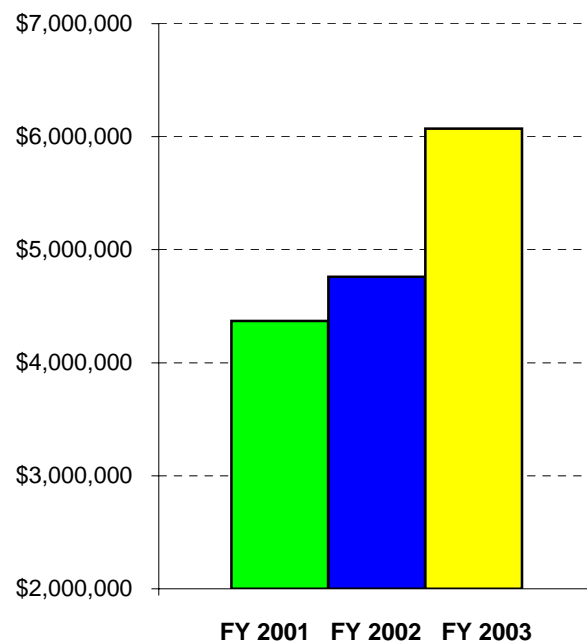


Table 19a - Revenue from Food and Beverage Tax*

	FY 2001	FY 2002	FY 2003	Dollars Inc/ Dec	% Change
Businesses Reporting	824	833	865	32	4%
Tax Remitted	\$ 18,763,326	\$ 19,282,010	\$ 22,967,094	\$ 3,685,084	19%

Table 19b - Revenue from Lodging Tax*

	FY 2001	FY 2002	FY 2003	Dollars Inc/ Dec	% Change
Businesses Reporting	55	52	53	1	2%
Tax Remitted	\$ 4,370,901	\$ 4,760,373	\$ 6,071,506	\$ 1,311,133	28%

* The Food and Beverage tax rate increased July 1, 2002 from 5.5% to 6.5%, the Lodging tax rate also increased July 1, 2002 from 7% to 8%. These additional funds are designated for a group of special projects as follows: to set aside money for a major public facility, improvements to Scope, improvements to other civic facilities, site preparation for the new facility, and challenge grants to partner organizations.

Admissions Tax

Chart 20 - Admission Tax from Scope, Nauticus, Harbor Park, and all other sources

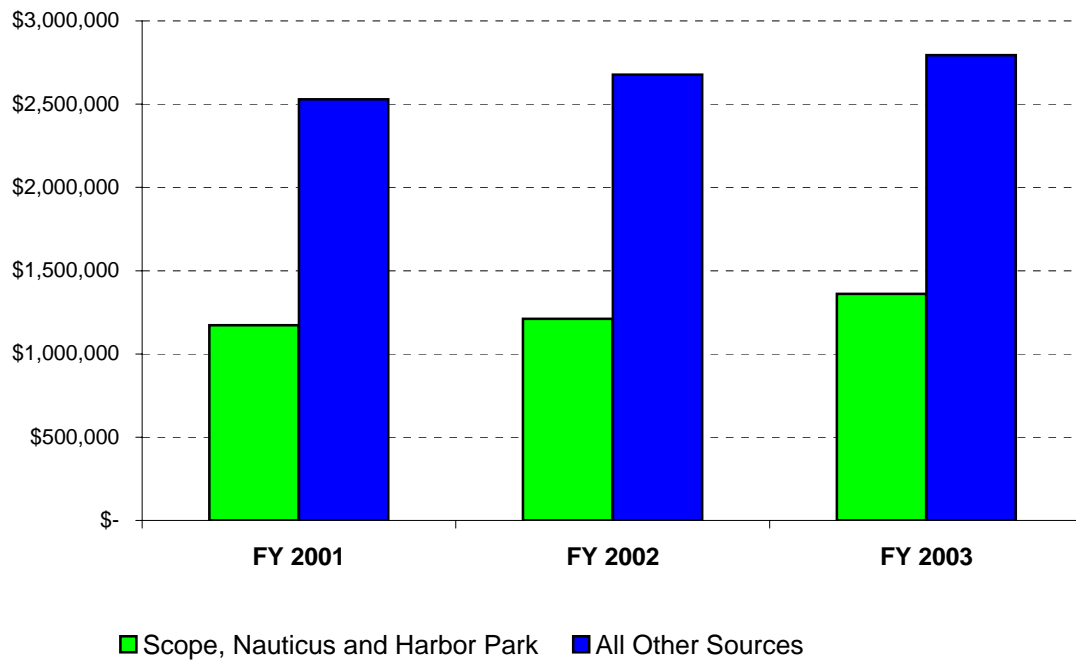


Table 20 - Admissions tax from Scope, Nauticus, Harbor Park, and all other sources

	FY 2001	FY 2002	FY 2003	Dollars Inc/ Dec	% Change
Scope, Nauticus and Harbor Park	\$ 1,172,080	\$ 1,211,338	\$ 1,361,590	\$ 150,252	12%
All Other Sources	2,529,392	2,676,893	2,794,042	\$ 117,149	4%
Total	\$ 3,701,472	\$ 3,888,231	\$ 4,155,632	\$ 267,401	7%

Cigarette Tax

Chart 21 - Cigarette Tax Revenue

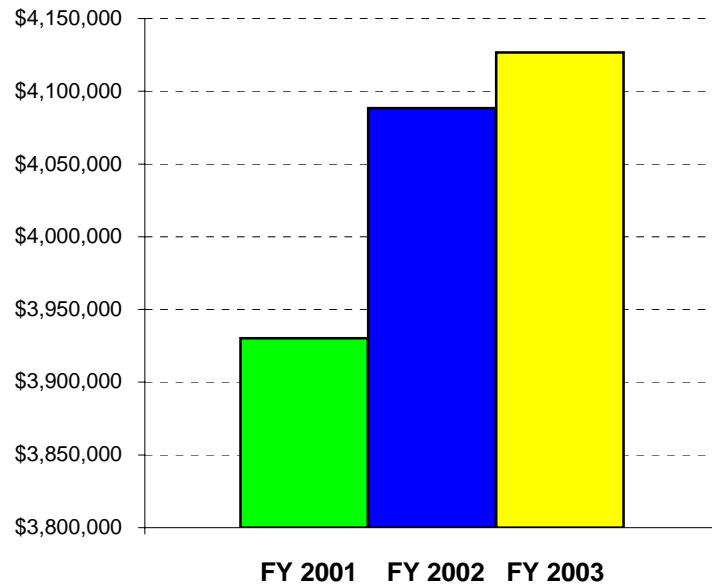


Table 21 - Revenue from Cigarette Tax*

	FY 2001	FY 2002	FY 2003	Dollars Inc/ Dec	% Change
TOTAL	\$ 3,930,323	\$ 4,088,387	\$ 4,126,702	\$ 38,315	1%

*The Cigarette Tax rates increased July 1, 2003 from \$.30 to \$.55 for a package containing 20 cigarettes, and from \$.375 to \$.6875 for a package containing 25 cigarettes. The effects of this increase will be reflected in the FY 2004 Annual Report.

Short Term Rental Tax

Chart 22 - Short Term Rental Tax

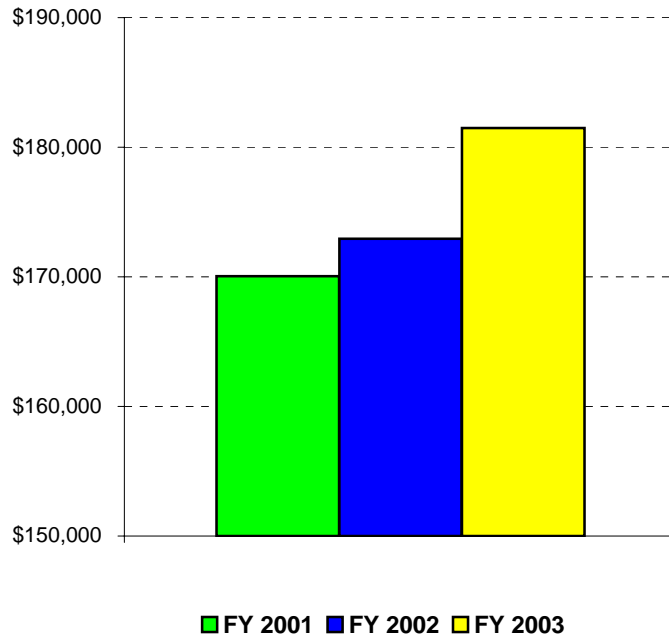


Table 22 - Short Term Rental Tax

Quarter	FY 2001	FY 2002	FY 2003	Dollars Inc/ Dec	% Change
TOTAL	\$ 170,056	\$ 172,928	\$ 181,474	\$ 8,546	5%

Special Taxes - State & City

Joe Van Landingham, Business Manager & Special Tax Coordinator

Phone: 441-2271 email: joe.vanlandingham@norfolk.gov

Special Taxes - State & City Duties

- ◆ **Bank Franchise Tax** - This tax is imposed on banks with principle offices in Norfolk. The tax is based on the percentage of deposits through the principle office and/ or branches located in Norfolk as of January 1. Virginia Code allows for the maximum tax not to exceed 80% of the state bank franchise rate, which is \$1.00 per each \$100 of net capital imposed. The tax is due annually on or before June 1st.
- ◆ **Franchise Tax** - This tax is paid in lieu of a right-of-way tax, granting easement and access. It allows use of city property for installation of physical plant i.e., utility lines.
 - Bell Atlantic - This tax is due annually on or before March 1st. It is assessed at 3% of gross revenue.
 - Cox Cable - Beginning in FY 03 this tax is due on or before March 1st. It is assessed at 5% of gross revenue.
- ◆ **Public Service Corporation** - Taxes are imposed on public service corporations such as utility and railroad companies. These rates are set by the Virginia General Assembly and monitored by the State Corporation Commission. The Commissioner of Revenue is responsible for verification of taxable assets and for classifying those assets in accordance with the asset type. The real property taxation rate is \$1.40 per \$100 and the personal property taxation rate is \$4.00 per \$100.
- ◆ **Utilities** - Utility taxes collected during each calendar month are reported, and paid, by each utility company on or before the 27th day of the second month following collection. Electric and Gas rates changed as the result of the deregulation of the electric and natural gas utility industries as provided by the Virginia Deregulation Act(s) of 1999 and 2000. Effective January 1, 2001, electric and gas companies base the amount of the utility tax on kilowatts per hour of electricity (kWh) and cubic feet of natural gas (CCF) consumed, as applicable. The schedule of taxation rates for utility companies is as follows:

Utilities - Residential

- Electric - \$1.75 + .016891 per kWh not to exceed \$3.75 per month
- Natural Gas - \$1.50 per month
- Telephone - 25% of the total bill, excluding long distance calls
- Emergency 911 - \$2.40 per line
- Water - 25% of the first \$22.50
- Cox Cable - 7% of entire bill, excluding charge for remote control

Special Taxes - State & City Duties

Utilities - Business

Electric - \$1.75 + .017933 on first 537 kWhs monthly + .006330 on remaining kWhs

Natural Gas - \$3.225 + .167933 on first 70 CCF + .161552 on CCF in excess of 70 CCF and up to 430 CCF + .15363 on all remaining CCF not to exceed \$500

Telephone - 25% of service to building excluding instrument and switchboard

Water - 25% of the first \$75 plus 15% of bill in excess of \$75

◆ **Utilities - Manufacturer**

Electric - \$1.38 + .004965 on first 3,625,100 kWhs + .004014 on all remaining kWhs not to exceed \$53,000 per month. Manufacturers located in an Urban Enterprise Zone shall be taxed at the rate of \$1.38 + .006192 on kWhs delivered monthly, not to exceed \$10,440 per month.

Natural Gas - \$3.225 + .167821 on first 70 CCF + .161552 on CCF in excess of 70 CCF and up to 430 CCF delivered monthly not to exceed \$500

Telephone - 25% of service to building excluding instrument and switchboard

Water - 25% of the first \$75 plus 15% of bill in excess of \$75

◆ **Utilities - Consumer Tax**

Local mobile telecommunication - 10% of first \$30 of monthly gross charge

Franchise Tax and Public Service Corporation Taxes

Table 25a - Franchise Tax

Franchisee	FY 2001	FY 2002	FY 2003	Revenue Inc/Dec	% Change
Bank Franchise	\$ 1,070,262	\$ 1,297,599	\$ 1,014,374	\$ (283,225)	-22%
Verizon and Cox Cable*	3,242,327	3,399,944	2,945,471	(454,473)	-13%
Telecommunications	13,558	53,816	315,409	261,593	486%
TOTAL	\$ 4,326,147	\$ 4,751,359	\$ 4,275,254	\$ (476,105)	-10%

Chart 25 - Public Service Corporation Taxes

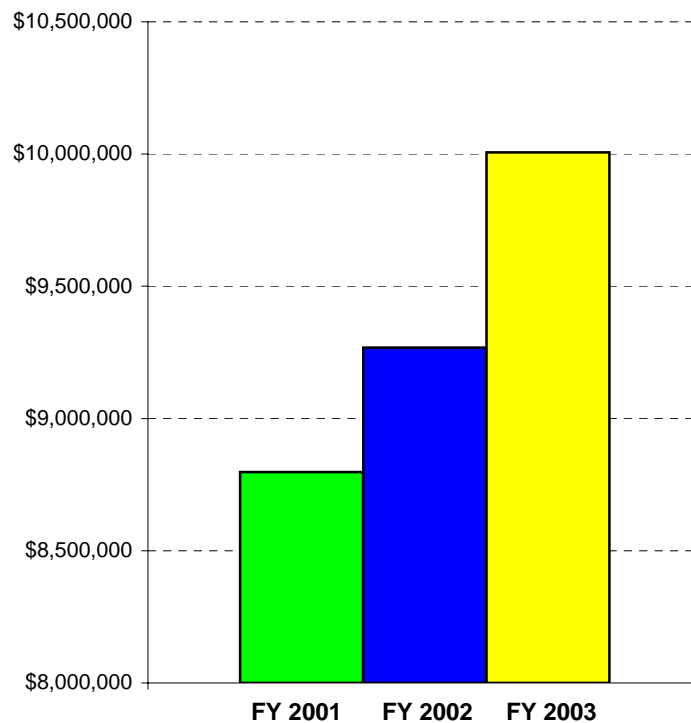


Table 25b - Public Service Corporation Real Property and Personal Property Taxes

		Year			Inc/Dec	% Change
		FY 2001	FY 2002	FY 2003		
Real Property	Assessments	65,559,938	692,706,068	707,757,961	15,051,893	2%
	Tax	9,178,399	9,697,885	9,908,612	210,727	2%
Personal Property	Assessments	2,256,966	2,279,960	2,449,182	169,222	7%
	Tax	90,279	91,198	97,967	6,769	7%
Total	Assessments	67,816,904	694,986,028	710,207,143	15,221,115	2%
	Tax	9,268,678	9,789,083	10,006,579	217,496	2%

*All property of Public Service Corporations is taxed at a rate of \$1.40 per hundred for real property and \$4.00 per hundred for personal property as applicable (automobiles and trucks).

Utility Tax

Chart 26 - Utility Tax by percentage of total revenue

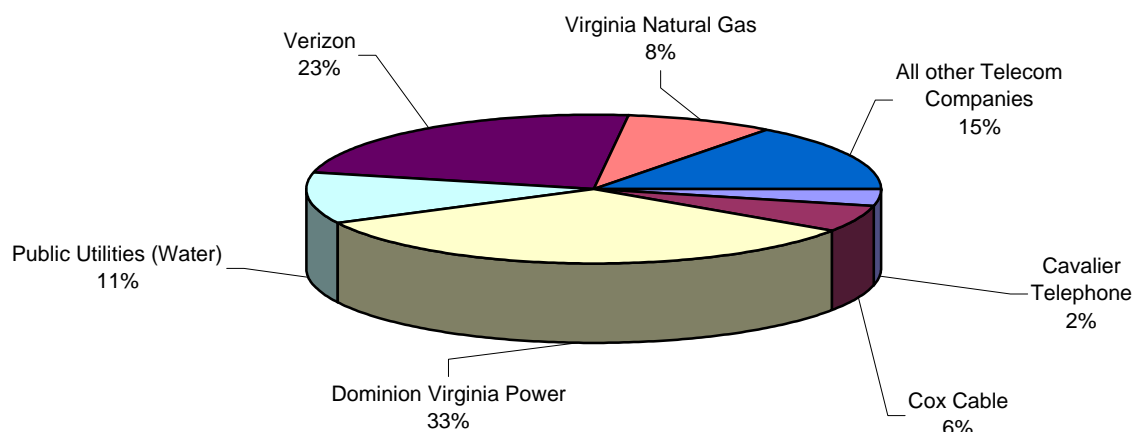


Table 26a - Utility Tax Revenue

Utility	FY 2001	FY 2002	FY 2003	Inc/ Dec	% Change
Cavalier Telephone	\$ 375,114	\$ 874,875	\$ 1,335,037	\$ 460,162	53%
Cox Cable	1,821,296	2,030,525	2,249,852	219,327	11%
Dominion Virginia Power	13,540,262	12,136,064	12,430,115	294,051	2%
Public Utilities (Water)	4,546,821	4,648,907	4,187,950	(460,957)	-10%
Verizon	12,100,008	11,439,344	8,803,029	(2,636,315)	-23%
Virginia Natural Gas	3,475,135	2,731,313	3,147,369	416,056	15%
All other Telecom Companies	2,697,508	3,047,588	5,556,540	2,508,952	82%
Total	\$ 38,556,144	\$ 36,908,616	\$ 37,709,892	\$ 801,276	2%

Table 26b - 911 Tax

Utility	FY 2001	FY 2002	FY 2003	Inc/ Dec	% Change
Cavalier	\$101,806	233,679	378,009	\$ 144,330	62%
Verizon	\$2,922,563	2,337,315	2,769,177	\$ 431,862	18%
All Other Telecom Companies	\$196,520	414,384	632,182	\$ 217,798	53%
Total	\$ 3,220,889	\$ 2,985,378	\$ 3,779,368	\$ 793,990	27%

Table 26c - Consumption Tax*

Utility	FY 2001*	FY 2002	FY 2003	Inc/ Dec	% Change
Dominion Virginia Power	\$ 216,296	\$ 589,370	\$ 603,136	\$ 13,766	2%
Virginia Natural Gas	83,054	116,133	178,274	\$ 62,141	54%
Total	\$ 299,350	\$ 705,503	\$ 781,410	\$ 75,907	11%

*Consumption Tax began midway through FY 2001. This tax offsets the BPOL tax which we received prior to FY 2001. BPOL tax revenue from Dominion Virginia Power and Virginia Natural Gas in FY 2001 was \$858,798 and \$232,875, respectively.

Section
6

Audit Team

Paul Crepeau, Team Leader

Phone: 441-2784 email: paul.crepeau@norfolk.gov

Audit Team Duties

- ◆ Ensure compliance with state and city taxes, laws, ordinances and fees
- ◆ Evaluate, appraise, and compare all businesses' licenses and their level of compliance regularly
- ◆ Conduct manufacturing determination visits

In - Depth Assessments

Chart 28 - Comparison of In-Depth Assessments and Amount Collected by year

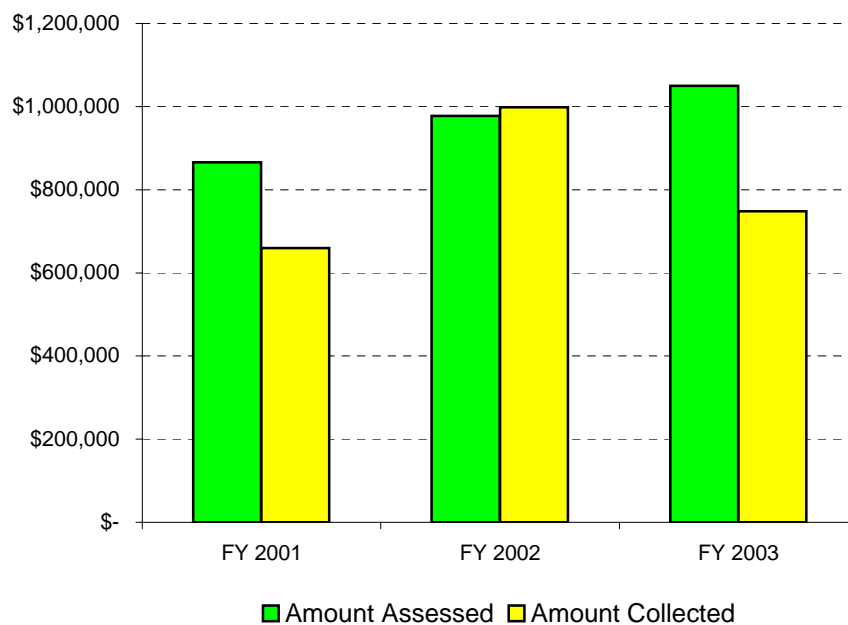


Table 28 - Revenue collected from in-depth assessments by quarter

Quarter	Amount Assessed			Amount Collected		
	FY 2001	FY 2002	FY 2003	FY 2001	FY 2002	FY 2003
1ST (Ended 9/30)	\$ 211,899	\$ 38,138	\$ 107,640	\$ 116,667	\$ 85,504	\$ 115,584
2ND (Ended 12/31)	220,208	389,958	371,978	90,229	376,466	93,931
3RD (Ended 3/31)	227,163	188,530	325,294	191,590	184,006	302,219
4TH (Ended 6/30)	206,381	361,094	245,188	261,079	352,091	236,250
Total	\$ 865,651	\$ 977,720	\$ 1,050,100	\$ 659,565	\$ 998,067	\$ 747,984

Section
7

State Income Tax Team

Robert K. Mislan, Team Leader

Phone: 441-2277 email: robert.mislan@norfolk.gov

State Income Tax Team Duties

- ◆ Process Individual Income Tax Returns including
 - Accelerated Refund Returns
 - Refund, Tax Due, and Fiduciary Returns
 - Estimated Tax Declarations and Payments
 - Prior Year and Amended Tax Returns
- ◆ Provide State Tax Return Filing Assistance including
 - Return Preparation and Filing Assistance
 - Furnishing Instructional Speakers for Tax Seminars and Meetings
 - Resolution of Taxpayer Conflicts with the Department of Taxation
- ◆ State income taxes must be filed with the local Commissioner of the Revenue on or before May 1st of each year

State Income Tax

Table 30a - State Income Tax Processing by Category

	FY 2001	FY 2002	FY 2003	Number Inc/ Dec	% Change
Accelerated Refunds	13,297	15,575	10,716	(4,859)	-31%
STAR Refunds*	2,767	0	0	0	n/a
Regular Refunds**	22,605	19,059	17,042	(2,017)	-11%
Tax Due	10,323	8,626	7,274	(1,352)	-16%
Estimated Taxes	3,931	3,196	2,888	(308)	-10%
Amended & Prior Year Returns	3,171	3,350	4,064	714	21%
Totals	56,094	49,806	41,984	(7,822)	-16%

*In FY 01 the Department of Taxation eliminated the STAR Refund. The STAR Refund was a faster refund for taxpayers using the same address as the previous year.

** In FY 03 this category included 5,203 I-FILED tax returns.

These trends reflect a growing number of returns are being filed electronically directly to the State Tax Department in Richmond.

Table 30b - Taxpayer assistance statistics

	FY 2001	FY 2002	FY 2003	Number Inc/ Dec	% Change
Customer Visits for Filing Assistance	6,742	6,679	6,614	(65)	-1%
Telephone Calls Seeking Assistance	19,118	15,617	12,094	(3,523)	-23%
Total Taxpayer Assistance	25,860	22,296	18,708	(3,588)	-16%

Quicker refund processing by the State Tax Department reduced the number of telephone calls we received this year from residents seeking information concerning their refund check.

Table 30c - Taxpayer dollar amounts processed

	FY 2001	FY 2002	FY 2003	Number Inc/ Dec	% Change
Individual Income Tax Due Assessed	\$ 6,260,525	\$ 4,094,434	\$ 3,884,706	\$ (209,728)	-5%
Estimated Income Tax Assessed	\$ 3,347,919	\$ 2,523,458	\$ 2,304,202	\$ (219,256)	-9%
Total Dollars Processed	\$ 9,608,444	\$ 6,617,892	\$ 6,188,908	\$ (428,984)	-6%

Of the returns filed through this office last tax season, we identified 254 tax returns where the taxpayer failed to take advantage of some tax saving deductions and/or subtractions available to them. We assisted the taxpayers with the filing of amended returns which resulted in additional refunds of \$65,163.

Section
8

Investigation Team

Sandra Pitchford, Team Leader

Phone: 441-2208 email: sandra.pitchford@norfolk.gov

Investigation Team Duties

- ◆ Enforce compliance for business license, business personal property taxes, food and beverage tax, lodging tax, and admissions tax
- ◆ Enforce business tangible property filing for taxation
- ◆ Ensure proper taxation on personal property including vehicles, boats, mobile homes, aircraft and yard sales
- ◆ Conduct taxpayer inquiry investigations
- ◆ Serve as ambassadors for the office of the Commissioner of Revenue throughout the city while performing daily job functions, as well as serving on community committees and attending community meetings as the liaison between the citizens and this office
- ◆ Answering questions, addressing citizen/taxpayer concerns and assisting with interdepartmental referrals regarding a variety of issues

Investigation Division Summary

Table 32a - Investigation Activities by category

Activities	FY 2001	FY 2002	FY 2003	Inc/ Dec	% Change
Visits / Contacts (including Delinquent Business Licenses and new Business Discovery)	17,013	16,048	12,642	(3,406)	-21%
Decal Tickets Issued	978	247	8	(239)	-97%
Telephone Contacts	10,901	13,844	16,184	2,340	17%
Cases Completed	1,010	434	404	(30)	-7%
New Cases Generated	1,100	493	459	(34)	-7%
Paid Delinquent Business Licenses	1,595	1,762	1,551	(211)	-12%
Monthly Meal Tax Delinquents	304	287	331	44	15%
Meal Tax - 10 Day Notice	215	262	330	68	26%
Total Investigative Activities	33,116	33,377	31,909	(1,468)	-4%

Table 32b - Investigative activities by amount

Activities	FY 2001	FY 2002	FY 2003	Inc/ Dec	% Change
Delinquent Business Licenses - Paid	\$ 1,753,906	\$ 1,498,377	\$ 839,835	\$ (658,542)	-44%
Inquiry Visits	1,101,849	1,055,890	200,314	(855,576)	-81%
Decal Tickets	18,500	12,480	400	(12,080)	-97%
Monthly Meal Tax Delinquents - Paid	323,825	287,578	394,344	106,766	37%
Meal Tax - 10 Day Notice - Paid	330,462	338,978	548,307	209,329	62%
Total	\$ 3,528,542	\$ 3,193,303	\$ 1,983,200	\$ (1,210,103)	-38%

Brief Description of Activities

Visits/Contacts - contact made by us to taxpayers either in person or by telephone

Inquiries -includes input from taxpayers, other agencies, and in - house discovery, which could result in establishing new business license accounts

Telephone Contacts - incoming and outgoing calls to taxpayers

Decal Tickets Issued - includes tickets issued for violations of vehicle and boat decals

Case Completed - all cases finalized, including cases where investigations have been completed and proper business license accounts have been established if required

New Cases - includes new cases generated for that period from citizen calls, in-house inquiries or other means resulting in an investigator initiating a call or visit

Monthly Meal Tax Delinquents - notice given to businesses that are less than 1 month late remitting Meal Tax

Meal Tax - 10 day Notice - letter sent to businesses by the Business Tax Team for Meal Tax that is more than 1 month late

Inquiry Visits - contact made in the field with taxpayers

The Investigation Team is on call after hours between 5:00 p.m. - 9:00 p.m. on weekdays and 8:00 a.m. - 9:00 p.m. on weekends. The hotline phone # is 640-3281.

Section
9

Senior Citizens Real Estate Tax Relief

Carolyn Lawrence, Team Leader

Phone: 441-1502 email: carolyn.lawrence@norfolk.gov

Senior Citizens Real Estate Tax Relief Team Duties

- ◆ Determine eligibility for real estate tax relief based on the following basic requirements:
 - (1) Must be at least 65 years of age or totally and permanently disabled.
 - (2) Must live in the property to be exempted.
 - (3) Combined income of owners and all relatives living in home cannot exceed \$34,450 per year.
 - (4) Net worth, exclusive of the home, cannot exceed \$100,000.
- ◆ The exemption is granted on an annual basis and a new application must be filed by June 1 each year.

Senior Citizens Real Estate Tax Relief

Chart 34a - Dollar amount of Tax Relief

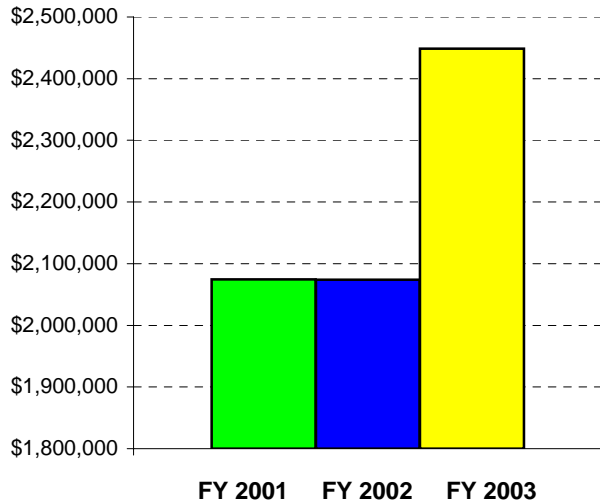


Chart 34b - Number of Homeowners Qualified for Relief by Year

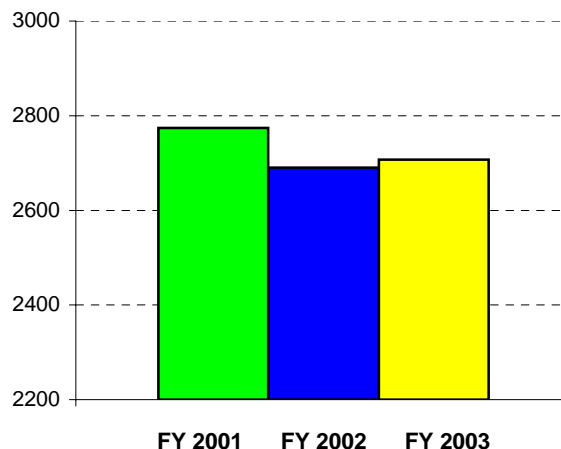


Table 34a - Senior Citizens Real Estate Tax Relief

	Year			Dollar Inc/ Dec	% Change
	FY 2001	FY 2002	FY 2003		
Accounts	2774	2690	2707	17	1%
Amount	\$ 2,074,323	\$2,073,774	\$2,448,713	\$374,939	18%

Table 34b - Real Estate Tax Relief by percentage of exemption

Exemption	FY 2001	FY 2002	FY 2003
100%	1469	1460	1835
90%	383	348	333
80%	177	158	270
70%	146	150	165
60%	138	138	39
All other	461	436	65
Total	2774	2690	2707

Table 34c - Statistical Information

	FY 2001	FY 2002	FY 2003
Households on disability	1024	375	265
Senior Citizen Households	1750	2315	2442
New households added	254	130	125
Households removed from program	323	256	416

Table 34d - Households removed from program

Reasons	FY 2003
Sale of Property	82
Death	86
No Response	207
Other	33
Income Became Too High	8
Total	416

Section

10

Revenue Recap by Classification

Table 35 - Recapitulation of revenue by classification (City Taxes Only)

CLASSIFICATION	FY 2001	FY 2002	FY 2003	INC/ DEC	% CHNGE
Admissions	\$ 3,701,472	\$ 3,888,231	\$ 4,155,632	\$ 267,401	7%
Aircraft	332,782	334,362	372,815	38,453	11.5%
Boats - Personal	4,713	4,793	5,105	312	7%
Boats - Commercial	174,007	776,339	577,749	(198,590)	-26%
Boat Decal Sales	89,795	79,670	80,106	436	1%
Business License	18,700,013	18,814,552	18,771,668	(42,884)	-0.2%
Cigarette Taxes	3,930,323	4,088,387	4,126,702	38,315	1%
Consumption Tax*	299,350	705,504	781,410	75,906	11%
Food and Beverage	18,763,326	19,282,010	22,967,094	3,685,084	19%
Franchise Taxes	4,326,147	4,751,359	4,275,254	(476,105)	-10%
Furniture & Fixtures	14,561,361	14,697,866	15,058,959	361,093	2%
In-Depth Assessments	659,565	998,067	747,984	(250,083)	-25%
Lodging Taxes	4,370,901	4,760,373	6,071,506	1,311,133	28%
Machinery & Tools	6,417,569	6,659,816	6,806,088	146,272	2%
Mobile Homes	25,240	22,066	18,559	(3,507)	-16%
Omitted Assessments	543,017	452,631	951,030	498,399	110%
Passenger Car Daily Rental	2,542,171	2,543,497	2,819,947	276,450	10.9%
Public Service Corporation	9,268,678	9,789,083	10,006,579	217,496	2%
Residential Parking Decals	17,738	20,083	23,122	3,039	15%
Short Term Rental	170,056	172,928	181,474	8,546	5%
Tangible Personal Property	28,568,184	28,921,505	29,887,610	966,105	3%
Utility Taxes	38,556,144	36,908,616	37,709,892	801,276	2%
Yard/ Garage Sale Permits	11,190	11,785	10,460	(1,325)	-11%
911 - Fee	3,220,889	2,985,378	3,779,368	793,990	27%
Total	\$ 159,254,631	\$ 161,668,901	\$ 170,186,113	\$ 8,517,212	5%

* Consumption Tax began midway through FY 2001

Appendix A - Tables

<u>Name</u>	<u>Table Number</u>	<u>Page Number</u>
911 Tax	26b	27
Admissions Tax	20	21
Aircraft Personal Property Tax	9b	10
Boats (Personal & Commercial) Personal Property Tax	8a & 8b	9
Boat Decal Sales	12	13
Business Personal Property Tax	16	17
Business Licenses by Classification	18	19
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